PERAC AUDIT REPORT

Winchester Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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January 4, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Winchester Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. **<u>Member Deductions</u>**

   PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld, and that the additional 2% deduction is withheld from those members who make over $30,000 and were hired after January 1, 1979.

   Seven members or 18% from the sample selected did not have the additional 2% deduction withheld from income over $30,000 per year.

   Recommendation: The Board must comply with G.L. c. 32 § 22 (1)(b), and PERAC MEMO # 43/1999, which defined the additional 2% deductions. The Board administrator should initiate a review process of obtaining detailed payroll information from each department. This data must be routinely reviewed to ensure proper deductions are being withheld.

   Board Response:

   Annually, a payroll audit will be performed by the administrator to insure proper deductions are being withheld. A copy of PERAC Memo #43/1999 will be distributed to each payroll staff.

2. **<u>Regular Compensation</u>**

   There is a Collective Bargaining Agreement in one of the governmental units that includes clothing allowance payments for employees. The payments are made by regular AP check and not included on the Payroll check. These are regular recurring payments which should be classified as regular earnings for retirement purposes.

   Recommendation: Clothing allowances must be considered regular compensation pursuant to 840 CMR 15.03(1)(a) which states in part:

   "(a) To be considered regular compensation, any compensation to an employee must: …

   3. be ordinary, normal, recurring, repeated…
   4. be made pursuant to an official written policy of the employer or to a collective bargaining agreement;"

   The Board must formally instruct the payroll officers to begin withholding retirement deductions on clothing allowances paid to members. The payments must be part of the payroll in order for retirement deductions to be properly withheld. The rate of deduction must be at the same rate as the member's other compensation plus the additional 2% if total compensation exceeds $30,000 annualized for any pay period.

   Board Response:

   The Board will send a letter to the payroll departments with instructions regarding Regular Compensation.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

3. **Membership File**

   An examination of the Supplemental Membership Schedules filed with the 2005 and 2006 Winchester Annual Statements revealed discrepancies between the ending balance on the schedules and the Annuity Savings Fund balances reported. In 2005 and 2006, this difference was more than $48,000. The administrator has since reviewed the file and made revisions in 2007 to correct the discrepancies.

   However, an examination of the 2006 file by examiners during their reviews of refunds, transfers and new retirees, showed small balances remaining in five accounts which should have been zero and a negative balance for one refund which was overpaid.

   Recommendation:

   The membership file should be reviewed at year-end to ensure that the Supplemental Membership Schedule filed with the Annual Statement agrees with Annuity Savings Fund balance. In addition, this review can identify any retroactive payments received in the current year on behalf of members who left the system or retired the previous year. These should be transferred, refunded or added into a retiree's balance and the allowance refigured, as appropriate. Similarly, checking for any negative balances will alert the administrator to a situation in which a refund should be requested.

   Board Response:

   The Retirement Administrator will review and audit the Supplemental Membership Schedule to be certain that it does balance with the Annuity Savings Balance.

4. **Board Member Attendance**

   A review of meeting attendance by Board members showed that one member missed 25% of the meetings in 2005 and 42% in 2006, due to conflicts with his work schedule.

   Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. Members who do not regularly attend meetings may jeopardize their fiduciary duty to the retirement system. Since this member has a work schedule that is likely to conflict with some regularly scheduled meetings, the Board should consider adjusting the schedule of Board meetings whenever possible in order to better accommodate all members.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2006	2005
Net Assets Available For Benefits:		
Cash	$5,824,656	$2,227,445
Short Term Investments	0	0
Fixed Income Securities	0	0
Equities	8,988,998	12,479,247
Pooled Domestic Equity Funds	4,756,165	4,106,559
Pooled Global Equity Funds	29,514,455	22,978,751
Pooled Domestic Fixed Income Funds	11,329,344	10,868,408
Pooled Alternative Investment Funds	3,702,770	2,605,418
Pooled Real Estate Funds	3,372,218	3,168,853
PRIT Cash Fund	0	0
PRIT Fixed Income Fund	13,160,788	12,788,256
Interest Due and Accrued	33,060	17,925
Accounts Receivable	479,653	4,012
Accounts Payable	(287,709)	(417,314)
Total	$80,874,398	$70,827,559
Fund Balances:		
Annuity Savings Fund	$14,615,453	$13,951,909
Annuity Reserve Fund	4,980,732	4,903,917
Pension Fund	1,127,967	2,453,010
Military Service Fund	6,098	6,062
Expense Fund	0	0
Pension Reserve Fund	60,144,148	49,512,661
Total	$80,874,398	$70,827,559

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	$12,731,153	$4,926,785	$3,793,134	$7,334	$0	$42,952,152	$64,410,558
Receipts	1,900,451	146,567	3,113,500	76	386,674	6,556,282	12,103,549
Inter Fund Transfers	(463,320)	459,092	0	0	0	4,228	0
Disbursements	(216,375)	(628,528)	(4,453,623)	(1,349)	(386,674)	0	(5,686,549)
Ending Balance (2005)	13,951,909	4,903,916	2,453,010	6,062	0	49,512,661	70,827,559
Receipts	1,574,475	148,708	3,290,779	36	454,575	10,631,487	16,100,061
Inter Fund Transfers	(602,321)	602,321	0	0	0	0	0
Disbursements	(308,610)	(674,215)	(4,615,823)	0	(454,575)	0	(6,053,222)
Ending Balance (2006)	$14,615,453	$4,980,731	$1,127,967	$6,098	$0	$60,144,148	$80,874,398

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2006	2005
Annuity Savings Fund:		
Members Deductions	$1,382,397	$1,473,241
Transfers from Other Systems	59,824	264,300
Member Make Up Payments and Re-deposits	50,744	77,256
Member Payments from Rollovers	0	10,699
Investment Income Credited to Member Accounts	81,510	74,955
Sub Total	1,574,475	1,900,451
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	148,708	146,567
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	177,177	176,989
Received from Commonwealth for COLA and Survivor Benefits	313,602	386,175
Pension Fund Appropriation	2,800,000	2,550,336
Sub Total	3,290,779	3,113,500
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	36	76
Sub Total	36	76
Expense Fund:		
Expense Fund Appropriation	56,998	57,104
Investment Income Credited to the Expense Fund	397,578	329,570
Sub Total	454,575	386,674
Pension Reserve Fund:		
Federal Grant Reimbursement	0	0
Pension Reserve Appropriation	0	0
Interest Not Refunded	458	1,843
Miscellaneous Income	391	181,949
Excess Investment Income	10,630,638	6,372,490
Sub Total	10,631,487	6,556,282
Total Receipts	$16,100,061	$12,103,549

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31, 2006	2005
Annuity Savings Fund:		
Refunds to Members	$37,623	$186,992
Transfers to Other Systems	270,987	29,382
Sub Total	308,610	216,375
Annuity Reserve Fund:		
Annuities Paid	674,215	628,528
Option B Refunds	0	0
Sub Total	674,215	628,528
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	2,786,077	2,664,104
Survivorship Payments	480,746	467,724
Ordinary Disability Payments	37,401	37,401
Accidental Disability Payments	730,083	698,149
Accidental Death Payments	361,922	369,314
Section 101 Benefits	14,823	14,823
3 (8) (c) Reimbursements to Other Systems	123,855	121,079
State Reimbursable COLA's Paid	80,915	81,029
Sub Total	4,615,823	4,453,623
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	0	1,349
Expense Fund:		
Board Member Stipend	3,000	3,000
Salaries	53,998	54,104
Legal Expenses	0	542
Travel Expenses	272	1,548
Administrative Expenses	2,995	2,289
Furniture and Equipment	171	659
Management Fees	339,320	270,373
Custodial Fees	43,875	41,810
Service Contracts	7,570	9,193
Fiduciary Insurance	3,375	3,155
Sub Total	454,575	386,674
Total Disbursements	$6,053,222	$5,686,549

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2006	2005
Investment Income Received From:		
Cash	$173,364	$76,387
Short Term Investments	0	0
Fixed Income	0	0
Equities	90,995	102,142
Pooled or Mutual Funds	1,304,110	563,712
Commission Recapture	0	0
Total Investment Income	1,568,469	742,242
Plus:		
Realized Gains	3,378,077	1,894,144
Unrealized Gains	12,361,418	9,105,027
Interest Due and Accrued – Current Year	33,060	17,925
Sub Total	15,772,556	11,017,096
Less:		
Realized Loss	(636,277)	(964,874)
Unrealized Loss	(5,428,353)	(3,870,806)
Interest Due and Accrued – Prior Year	(17,925)	0
Sub Total	(6,082,554)	(4,835,680)
Net Investment Income	11,258,471	6,923,658
Income Required:		
Annuity Savings Fund	81,510	74,955
Annuity Reserve Fund	148,708	146,567
Military Service Fund	36	76
Expense Fund	397,578	329,570
Total Income Required	627,833	551,168
Net Investment Income	11,258,471	6,923,658
Less: Total Income Required	627,833	551,168
Excess Income To The Pension Reserve Fund	$10,630,638	$6,372,490

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2006	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$5,824,656	7.2%
Short Term	0	0.0%
Fixed Income	0	0.0%
Equities	8,988,998	11.1%
Pooled Domestic Equity Funds	4,756,165	5.9%
Pooled Global Equity Funds	29,514,455	36.6%
Pooled Domestic Fixed Income Funds	11,329,344	14.0%
Pooled Alternative Investment Funds	3,702,770	4.6%
Pooled Real Estate Funds	3,372,218	4.2%
PRIT Cash Fund	0	0.0%
PRIT Fixed Income Fund	13,160,788	16.3%
Grand Total	$80,649,394	100.0%

For the year ending December 31, 2006, the rate of return for the investments of the Winchester Retirement System was 15.05%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Winchester Retirement System averaged 10.35%. For the twenty-two-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Winchester Retirement System was 10.99%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Winchester Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

February 22, 2006
16.08
In accordance with Investment Guideline 99-2, the Winchester Retirement Board is authorized to make a modest modification to its equity management mandate with State Street Global Advisors. Currently, SSGA's asset allocation group has discretionary authority to manage about 30% of Winchester's total portfolio by investing in five of SSGA's domestic and international equity funds, all of which have been authorized by PERAC. The Board will now authorize SSGA to also invest opportunistically in SSGA's Real Asset Strategy, which is a fund-of-funds that invests in four index funds involving REITs, commodities, natural resource stocks, and TIPS. While investment in such a strategy would ordinarily require a separate search process, the Board feels that a search would not be productive because it is seeking to invest only opportunistically in this product, as opposed to having a permanent commitment, and since the typical position in this strategy will likely not exceed $1 million. The Board has had a satisfactory relationship with SSGA and has carefully considered the merits of the Real Asset Strategy.

February 11, 2004
16.08
The Winchester Retirement Board is authorized to make a modification to their existing international equity mandate with State Street Global Advisors. The board's existing international equity funds are primarily invested in large-cap securities. In order to achieve greater diversification in its international equity holdings, the board intends to allocate a relatively small proportion of its international equity portfolio to SSGA's Active International Small Cap Securities Lending Common Trust Fund. The Board has had a satisfactory relationship with SSGA and its international equity team since 1998, and the fund being added has had a very strong performance record since its inception in 1997.

February 26, 2003
16.08
In accordance with Investment Guideline 99-2, the Winchester Retirement Board is authorized to invest in the SSGA International Alpha Fund. As part of its portfolio rebalancing, the Board is adding to its holdings in international equity. In accomplishing this, the Board is supplementing its current investment in the SSGA International Growth Opportunities Fund by initiating an investment in the SSGA International Alpha Fund. Both funds have an MSCI-EAFE benchmark, with the existing fund having a growth "tilt" and the Alpha Fund a "value" tilt. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

June 21, 2002
20.03(1)
The Winchester board may invest funds of the Town of Winchester Retirement System (the "System") with the real estate investment fund known as the Guggenheim Plus Real Estate Trust (the "Fund"), and while the assets of the System are so invested, the activities and the investments of the Fund and the affiliated and unaffiliated underlying funds and accounts in which the Fund invests, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), taking into account ERISA Section 408(b)(8), Prohibited Transaction Class Exemption 91-38, Prohibited Transaction Class Exemption 84-14, and 29 CFR § 2510.3-101.

The limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment. For purposes of applying the limitation set forth in 840 CMR Section 19.01(6)(c), the Fund's investment in affiliated entities shall be treated as invested in the investments directly or indirectly held by these entities, pro rata based on the Fund's indirect net investment in each.

20.03(2)
Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations the Winchester Retirement Board may invest funds of the Winchester Retirement System (the "System") with the real estate investment fund known as Realty Associates Fund VI Corporation (the "Fund), and while the assets of the System are so invested,

(i) the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund and the OP would not be treated as plan assets under ERISA; and

(ii) the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

April 18, 1996
20.03 (2)
At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 5% of the total fixed income portfolio valued at market.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

June 21, 1995
20.03 (1)
Equity investments shall not exceed 55% of the portfolio valued at market, including international equities which shall not exceed 7.5% of the portfolio valued at market.

20.04 (1)
United States based corporations and equities of foreign corporations.

20.07 (5)
Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

January 2, 1992
16.02 (4)
The board may employ a custodian and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Winchester Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or

- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or

- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

- Salary is defined as gross regular compensation.

- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age.”

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $648.48 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of $100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member’s death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member’s superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000, provided that the member and the spouse were married for at least one year and living together on the member’s date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child, and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first $12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Winchester Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

June 6, 2003

The Winchester Retirement System has adopted travel regulations promulgated by PERAC. (Regulations available upon written request.)

December 28, 1984

• Effective August 1, 1978, part-time employees must be employed for a minimum of twenty (20) hours per week in order to become members of the Town of Winchester Contributory Retirement System. Creditable Service will be accrued upon actual working hours based upon a minimum of twenty (20) hours per week and said minimum must be accrued upon a thirty-two (32) week year.

• Individuals whose employment consists of periods of part-time service shall have creditable service for the part-time portion pro-rated by the Board of Retirement. Periods of part-time service shall however, be fully creditable to the extent of full time service, provided that an employee's service is fully continuous, and further, that he has five (5) years full time service. In such cases, the part-time service shall be credited as full time in an amount equal to full-time service with the balance prorated;

• Provisional, temporary, temporary provisional, seasonal or intermittent service of less than three (3) consecutive calendar months, for employees classified in Group 1, shall not be considered creditable service unless a shorter period of time is immediately followed by permanent employment;

• If the Board of Retirement denies an application for a retirement allowance under the provision of M.G.L. c. 32, § 6, or 7, a similar application shall not be accepted within one (1) year from the date of denial unless:

1) new evidence
2) new incident
3) aggravation of pre-existing condition ensues.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Stephen Channell, Acting Comptroller		
Appointed Member:	William Zink	Term Expires:	2/12/10
Elected Member:	William Duran, Jr.	Term Expires:	12/30/08
Elected Member:	James Gray	Term Expires:	7/31/09
Appointed Member:	George Morrissey	Term Expires:	2/3/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	Travelers, AIG, and ARCH
Ex-officio Member:	)	Insurance Companies
Elected Member:	)	$1,000,000 Employee Dishonesty
Appointed Member:	)	$50,000,000 Fiduciary
Staff Employee:	)	

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2005.

The actuarial liability for active members was	$37,725,411
The actuarial liability for vested terminated members was	1,545,078
The actuarial liability for non-vested terminated members was	216,247
The actuarial liability for retired members and survivors was	43,217,954
The total actuarial liability was	82,704,690
System assets as of that date were	62,508,562
The unfunded actuarial liability was	$20,196,128
The ratio of system's assets to total actuarial liability was	75.6%
As of that date the total covered employee payroll was	$14,092,068

The normal cost for employees on that date was	8.02% of payroll
The normal cost for the employer was	6.60% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies depending on group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	$62,508,562	$82,704,690	$20,196,128	75.6%	$14,092,068	143.3%
1/1/2003	$56,841,465	$72,026,915	$15,185,450	78.9%	$13,361,418	113.7%
1/1/2001	$55,668,572	$62,489,235	$6,820,663	89.1%	$12,543,350	54.4%

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	12	11	7	13	18	2	9	2	8	7
Ordinary Disability	0	0	0	0	0	0	1	0	0	0
Accidental Disability	1	2	0	1	0	0	2	0	2	3
Total Retirements	13	13	7	14	18	2	12	2	10	10
Total Retirees, Beneficiaries and Survivors	320	317	319	319	328	321	313	319	307	300
Total Active Members	310	324	353	381	365	346	342	333	342	351
Pension Payments										
Superannuation	$1,631,775	$1,729,507	$1,855,672	$2,084,152	$2,343,362	$2,453,697	$2,525,194	$2,633,950	$2,664,104	$2,786,077
Survivor/Beneficiary Payments	110,700	219,706	240,279	269,968	359,121	325,636	384,373	418,228	467,724	480,746
Ordinary Disability	31,902	33,718	27,601	28,117	28,947	29,557	34,992	43,751	37,401	37,401
Accidental Disability	557,171	586,288	585,811	614,280	604,040	586,601	604,364	680,426	698,149	730,083
Other	457,587	305,510	354,343	284,551	293,412	457,056	537,870	562,000	586,244	581,516
Total Payments for Year	$2,789,135	$2,874,730	$3,063,706	$3,281,067	$3,628,881	$3,852,546	$4,086,793	$4,338,355	$4,453,623	$4,615,823

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